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[COMMITTEE PRINT]

REPORT ON OVERSEAS  
MILITARY BANKING FACILITIES

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REPORT

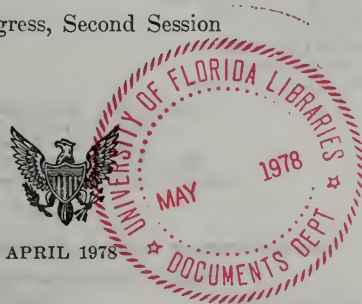
OF THE CHAIRMAN OF THE  
SUBCOMMITTEE ON GENERAL  
OVERSIGHT AND RENEGOTIATION

OF THE  
COMMITTEE ON BANKING, FINANCE  
AND URBAN AFFAIRS  
HOUSE OF REPRESENTATIVES

95th Congress, Second Session



APRIL 1978



Printed for the use of the Committee on Banking,  
Finance and Urban Affairs

The report has not been officially adopted by the Subcommittee on  
General Oversight and Renegotiation and may not therefore necessarily  
reflect the views of its members.

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U.S. GOVERNMENT PRINTING OFFICE  
WASHINGTON: 1978

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## LETTER OF TRANSMITTAL

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U.S. HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON GENERAL OVERSIGHT  
AND RENEGOTIATION OF THE  
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS,  
*Washington, D.C., April 13, 1978.*

HON. HENRY S. REUSS,  
*Chairman, Committee on Banking, Finance and Urban Affairs, House of  
Representatives, Rayburn House Office Building, Washington, D.C.*

DEAR MR. CHAIRMAN: Enclosed is a report entitled "Report on Overseas Military Banking facilities" prepared by me as part of the oversight obligation of the Subcommittee on General Oversight and Renegotiation.

With kindest personal regards, I am

Sincerely,

JOSEPH G. MINISH, *Chairman.*

(iii)



## OVERSEAS MILITARY BANKING

### I. BACKGROUND ON OVERSEAS MILITARY BANKING

Shortly after the close of World War II, the U.S. Treasury became involved in the establishment of an overseas banking program for American military and dependents stationed in Germany. In 1947, American Express and Chase Manhattan were authorized by Treasury, after a request by DOD, to open banking facilities in Frankfurt, Germany. When the occupation troops remained in Germany, the facilities spread throughout the country and to other American bases in Europe. To this day, Chase and Amexco are the only American banks operating military banking facilities in Europe.

During the early 1950's the military banking program expanded to Japan and Okinawa with the Bank of America, and First National City Bank (now Citibank) joining the two original operators.

Today the military banking program includes 142 full and part-time military banking facilities in Europe, all but three of which are operated by American Express. In the Pacific, 41 facilities are in existence.

There are no United States bank-operated MBF's in Spain or Italy. Italian and Spanish banks, supplemented by the military finance offices, provide banking services to American personnel in these nations.

Until recently, the military banking facilities operated under the joint jurisdiction of the Defense and Treasury Departments with Treasury's primary responsibility lying in the area of banking policy and practice and DOD's in the area of logistical support. Treasury's role clearly was predominant. It approved or disapproved requests for MBF's, selected the banks to operate the facilities, published policies and procedures for their operation, and determined the charges or fees for the services provided.

In addition, until the present fiscal year, it was the Treasury which reimbursed the banks for operating losses in the form of Treasury deposits placed with the banks in amounts sufficient to generate the earnings needed to offset their losses. While an exact figure is difficult to determine, it is estimated that this subsidy may have amounted to \$10 million in recent years. Additional undetermined costs were incurred by the Department of Defense for logistic support provided free to the banks.

Presently, the MBF's operate completely under contract with the Defense Department and financial support is provided directly through the Congressional appropriation process. For fiscal 1978, the Congress has provided \$12.1 million for the overseas military banking program.

### II. BACKGROUND ON SUBCOMMITTEE WORK

As a result of numerous complaints from servicemen and their dependents regarding alleged poor service provided by the military

banking facilities, Chairman Henry Reuss of the House Banking Committee in 1975 asked Chairman Minish of the Banking Oversight Subcommittee to look into various problems involving the MBF's.

The Congressional Research Service of the Library of Congress reported that, until 1975, "to the best of our knowledge, no Congressional investigations of U.S. Branch Banks operating on U.S. military bases overseas have ever taken place, nor oversight maintained. We know of no Congressional hearings and/or reports on the subject."

The Subcommittee's investigation, which extended into 1976, focused primarily with the level and type of service provided by the MBF's. The Subcommittee also worked with the General Accounting Office which studied the military banking program with primary emphasis on the management and financing of the program.

The Subcommittee's investigation in 1975-76 largely confirmed that serious problems, affecting servicemen's morale, surrounded the operation of the MBF's. Long lines for service, inadequate space, poor exchange rates on foreign currency, high check cashing and other fees, delay in the receipt of bank statements, failure to post deposits in a timely fashion, inequities in the pay of employees at the facilities, and discourteous service were among the major problems verified by the Subcommittee.

It was concluded that much of the blame for the difficulties should be attributed to the Treasury Department. Contrary to the Treasury's assertion, it was apparent that the banking facilities did not measure up to Stateside facilities.

We found both the military and the bank facilities attempting to work in concert for the good of the American servicemen. Needed reforms and changes were in large part supported by the American Express Company, Chase Manhattan, the Army and Air Force, and most importantly, by the soldiers, airmen, and their dependents who use the facilities.

These recommended changes, however, have been ignored, rebuffed, and resisted by the Treasury Department. While some progress had been made, it was noted that these improvements had occurred after, and in all probability were generated by its decision to investigate this entire area.

We made the following recommendations regarding the overseas military banking program:

(1) There must be improved communications between the Treasury Department and both the banking facilities and appropriate military officers.

(2) The banking facilities should strive to improve their image by providing more information to customers with regard to all aspects of their operation and by giving the highest priority to customer service.

(3) Eliminate the 25 cent per hundred check cashing fee for account holders and raise the present maximum amount which may be cashed to a more realistic level.

(4) Permit military finance officers to cash the checks of servicemen at all times.

(5) Institute an instant line of credit of \$100 for account holders at the military banking facilities.

(6) Realizing the numerous competing demands for DOD funds, the Subcommittee nevertheless recommended that the Department should strive to provide more adequate space for the military banking facilities.

(7) American dependents employed at the facilities should receive equal pay and benefits with foreign nationals doing the same work.

(8) Local bank managers should be given greater authority and flexibility with regard to the everyday operations of the facility.

In addition, the Subcommittee made the following assertion in its report:

"It should be noted that the investigation and the above recommendations were made within the existing institutional structure of military banking. If improvements are not forthcoming in the entire system, consideration should be given to establishing a new institutional structure."

In this connection, the General Accounting Office made the following recommendations in its report of December 12, 1975 entitled "Overseas Military Banking: How it is financed and Managed."

"The Congress should consider transferring the responsibility of both program funding and management from Treasury to Defense. This would place program costs with the agency primarily deriving the benefit. And, it would promote efficiency by compelling installation commanders to be held principally accountable for holding costs of the services provided by the banks as low as possible.

"In addition, Congress should require the administering agency to submit an annual appropriation request covering anticipated expenses. Program costs then would be identifiable and would assure that operation of the program meets with legislative approval."

### III. RESPONSE BY JOINT TASK FORCE ON OVERSEAS MILITARY BANKING

As a result of the GAO and Subcommittee investigations, a Treasury-DOD Joint Task Force on Overseas Military Banking was established. On May 28, 1976, the Task Force responded as follows to Chairman Minish's recommendations:

(1) "Improved communication should be established between the Treasury Department and both the banking facilities and appropriate military officers."

#### *Task force comment*

The task group agrees that, while communication at the departmental level was adequate, there is a need for improvement in communications from that level to the operating level of both the banks and the field headquarters of the Services. Partial accomplishment of this objective has already resulted from the efforts of the task force in conducting this study. Standard procedures for bank operations published in a prescribed format for distribution to all parties concerned will further this communication among the various levels of management and oversight.

(2) "The banking facilities should strive to improve their image by providing more information to customers with regard to all aspects of their operation and by giving the highest priority to customer service."

*Task force comment*

Field visits made by members of the task force indicate that the banks are making this effort. A similar effort on the part of local commanders is also underway, and this two-pronged approach has already had favorable results, as evidenced by the reduced number of complaints now being received from bank customers. Appointment of bank liaison officers at the local level provides a channel to the customer that has an added degree of credibility as well as a broader customer contact. Local bank managers generally showed genuine concern over the image projected by their facilities and were active in facilitating their customer relations. The "single-line" concept of teller service, which is now employed by many MBF's, is one example of the banks' efforts to improve service.

(3) "Eliminate the 25 cents per hundred check cashing fee now in effect for account holders and raise the present maximum amount which may be cashed to a more realistic level."

*Task force comment*

Treasury has eliminated the 25 cents per hundred check cashing fee for account holders provided the amount of the check does not exceed the account balance. The option of depositing such checks for collection when the amount exceeds the customer's balance remains in effect. A schedule of proposed check cashing fees is discussed in Chapter IV. The task force considers the \$300 maximum for cashing stateside checks to be a realistic limitation considering the statutory restrictions on offsetting uncollectable items from an individual's pay.

(4) "Permit military finance officers to cash the checks of servicemen at all times in order to reduce the burden on military banking facilities."

*Task force comment*

Treasury has authorized such action when justified at individual installations on the basis of long lines and unreasonable delays in providing service at MBFs. DOD has not yet delegated such authority to the Military Departments. The task force concurs that the authority should be delegated for use when justified; however, constraints on cashing stateside checks are discussed in Chapter IV.

(5) "Institute an instant line of credit of \$100 for account holders at the military banking facilities in order to avoid the present problem of overdrafts."

*Task force comment*

The task force is opposed to a blanket extension of credit to all account holders in any amount. Such an action would undoubtedly encourage some account holders to extend themselves beyond their

financial means. The task force does, however, recognize value in an instant line of credit which could be made available by the bank to account holders who apply and qualify under the same criteria currently used to make standard types of loans. Such a procedure has met with varying degrees of success in stateside banking operations.

(6) "Realizing the numerous competing demands for DOD funds, Mr. Minish nevertheless believes the Department should strive to provide more adequate space for the military banking facilities."

*Task force comment*

The task force concurs in this observation and recognizes that, resulting from Mr. Minish's report, field commanders have increased their efforts to improve facilities. An indication of departmental interest and support of such efforts would undoubtedly encourage such efforts by subordinate commands, particularly if some assurance were to be given that improvement projects for banking facilities would not be prime candidates for budget reductions at the departmental levels.

(7) "American dependents employed at the facilities should receive equal pay and benefits with foreign nationals doing the same work."

*Task force comment*

The Minish recommendation is somewhat simplistic in nature in that "equal pay for equal work" involves complex and emotion-laden factors which differ depending on local customs throughout the world. The task force accepts the principle expressed in the recommendation but recognizes that there are varying interpretations of "equal pay". It also recognizes that an unequivocal application of such a policy worldwide would work to the detriment of American dependents in areas where they are now paid more than local national employees. Equality, recognizing length of service and seniority, is desirable in such areas as leave, sick leave, and similar fringe benefits. Equality in net income, or take-home pay, is also desirable if, again, allowance is made for length of service and seniority as dictated by local custom and accepted personnel management practice. Any move to increase gross salaries paid to American dependents which at the same time might subject these members of the American forces to local laws and local taxes may not serve a useful purpose.

(8) "Local bank managers should be given greater authority and flexibility with regard to the everyday operations of the facility."

*Task force comment*

The task force concurs in the principle of this recommendation but was unable to identify specific changes which might be made to authority presently available to facility managers in conducting day-to-day operations. This precept should be given full consideration in the development of standard procedures for MBF operations with the objective of strengthening management at the operating level.

Finally, with regard to GAO's recommendation that the program be transferred completely to DOD and be funded by an appropriation, the task force stated:

"Subject to Congressional approval, DOD should bear the costs of operating the overseas military banking program and should seek an appropriation for this purpose in the fiscal year 1978 operating budget.

Use of compensating balances should be retained as an optional method of providing initial reimbursement to participating banks. Reimbursement by Defense to Treasury for the imputed value of funds invested in compensating balances used to finance the program is preferred to the alternative of direct reimbursement to the banks, although it is recognized that circumstances may dictate use of direct reimbursement.

Agreements with participating financial institutions should be revised and expanded to more clearly define relationships and responsibilities. Three of the five voting members of the task force concluded that:

Responsibility for administrative management of the overseas military banking program should remain with the Department of the Treasury.

DOD should assume a more active role in certain policy decisions affecting operations of the program.

The remaining two members concluded that management of the overseas military banking program should be transferred to DOD in a responsible manner at a date mutually agreed upon by the two departments."

#### IV. DOD ADMINISTRATION

In September of 1976, the Office of Management and Budget gave its support to a Treasury Department request that the Defense Department take over both the management and funding of the overseas military banking program.

A memorandum of understanding between the two departments was signed on October 21, 1976, and the transfer of responsibilities was completed on April 1, 1977. Treasury continued, through the compensating balance method, to fund fiscal year 1977 program costs.

The fiscal year 1978 Defense budget, approved by the Congress and signed by the President, contains \$12 million to finance the program. In September 1977, contracts for the operating of the facilities were entered into by DOD and the banks in accordance with Armed Services Procurement Regulations.

With appropriations provided directly for the MBFs for the first time, Chairman George Mahon of the House Appropriations Committee wrote the following letter to Chairman Henry Reuss of the House Committee on Banking, Finance and Urban Affairs:



Replies to Chairman Mahon from Chairmen Reuss and Minish were as follows:

HENRY S. REUSS, WIS., CHAIRMAN  
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 WILLIAM S. MOOREHEAD, PA.  
 EDWARD J. ST. GERMAIN, R.I.  
 HENRY B. CONTRA, TEX.  
 JOSEPH G. MINISH, N.J.  
 FRANK ANNUNZIO, ILL.  
 JAMES H. HANLEY, N.Y.  
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 JIM MATYOK, TEX.  
 BRUCE F. VINTO, MINN.  
 DOUG BARNARD, GA.  
 WES WATKINS, OKLA.

J. WILLIAM STANTON, OHIO  
 GARRY BROWN, MICH.  
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## U.S. HOUSE OF REPRESENTATIVES

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

NINETY-FIFTH CONGRESS

2129 RAYBURN HOUSE OFFICE BUILDING

WASHINGTON, D.C. 20515

August 10, 1977

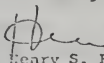
Honorable George H. Mahon  
 Chairman  
 Committee on Appropriations  
 U.S. House of Representatives  
 H-218, The Capitol  
 Washington, D.C. 20515

Dear Mr. Chairman:

Thank you for your letter of August 8, 1977, indicating the new procedure which will be used to subsidize, if needed, overseas military banking activities. I think your direct approach will certainly lead to efficiencies which are not now evident.

I am taking the liberty of sending a copy of your letter and my response to the Honorable Joseph G. Minish, Chairman of the Subcommittee on General Oversight and Renegotiation, whom, as you know, has been responsible primarily for the activities in this area. I am requesting that he comply with your request to review the DOD plans in this instance.

Sincerely,

  
 Henry S. Reuss  
 Chairman

DAVID W. EVANS, IND.  
JIM MATTOX, TEX.  
HENRY D. GONIALEZ, TEX.  
FRANK ANNUNIO, ILL.  
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GEORGE HANSEN, IDAHO  
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## U.S. HOUSE OF REPRESENTATIVES

SUBCOMMITTEE ON GENERAL OVERSIGHT  
AND RENEGOTIATION  
OF THE

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

NINETY-FIFTH CONGRESS

WASHINGTON, D.C. 20515

August 23, 1977

Honorable George H. Mahon  
Chairman  
Committee on Appropriations  
U.S. House of Representatives  
H-218, The Capitol  
Washington, D.C. 20515

Dear Mr. Chairman:

Chairman Reuss has forwarded your letter on military banking facilities to my attention. As you may be aware, my Subcommittee has been conducting continuing oversight with regard to this program and issued a report with recommendations for improvements in early 1976. ...

In view of the new funding policy which will go into effect for military banking facilities on October 1, 1977, I certainly agree with your view on the need to conduct a further inquiry into this program. My staff has been working, and will continue its efforts, to insure that American servicemen and their dependents are receiving the best possible banking services at the lowest possible cost to the American taxpayer.

Be assured that my Subcommittee will continue to review this program and we will be most pleased to share our findings and recommendations in this area with you and your distinguished Committee.

With kindest personal regards I am,

Sincerely,

Joseph G. Minish  
Chairman

## V. SUBCOMMITTEE SURVEY

In late 1976, the Subcommittee wrote to every American military base serviced by an MBF in an attempt to ascertain the current level and type of service being provided. Replies, which were received by early 1977, represented about 80 MBF's, or about half the total.

In addition, in July 1977 the Subcommittee requested and received from the Defense Department a report entitled "Present Status of Overseas Military Banking Program."

Although the survey and the DOD report were conducted at slightly different times, the obvious contradiction between the two was a cause for concern.

Following is a summary of the Defense Department's report on its progress in dealing with each Subcommittee recommendation and a comparison of it with the Subcommittee's independent survey of banking facilities:

### *Subcommittee's recommendation No. 1*

There should be improved communication between the Treasury Department and both the banking facilities and appropriate military officers.

### *DOD report*

DOD agrees with the Subcommittee that improved communications is needed between headquarters and the banking facilities. They contend that new emphasis has been placed on communications and that DOD personnel have visited field commands and banking facilities and intend to recommend more visits. Closer relationships between field commands and banking Liaison officers and facilities are being encouraged.

### *Subcommittee's independent survey*

The Subcommittee's information received from banking facilities throughout the world did not support the Department of Defense's contention that improved communications have or are being implemented with the banking facilities. For example: Holy Loch, Scotland reported that they never received information on services the MBF was to offer or the charges that were to be assessed. They discovered on their own that the MBF was charging an incorrect exchange rate on foreign currency. In Neo Maki, Greece, the banking facility reported that Washington did not respond to its inquiry on a problem of erroneous service charges. The banking facility in Morocco reported that it has virtually no contact with the Treasury in Washington. The facility at Karlsruhe, Germany argued strongly for the establishment of a manual of operating procedures and services. In Grafenwohr, Germany, the MBF reported a lack of timely responsiveness on the part of the Treasury and Defense Department to the needs of the community. In New Amsterdam, Netherlands, the banking facility reported that communications between the Treasury Department and the MBF were a definite problem. The facility at Zwibrucken, Germany cited a need for improved communications between the Treasury

Department and both banking facilities and appropriate military officers. The facility at Guam reported poor communications with Washington. From Yokota, Japan there was a call for clearer policies and procedures.

*Subcommittee's recommendation No. 2*

The banking facilities should strive to improve their image by providing more information to customers with regard to all aspects of their operation and by giving the highest priority to customer service.

*DOD report*

Defense reports that the banking facilities are making the effort to improve their image and level of customer service. They claim that their efforts "already have had favorable results as evidenced by the reduced number of complaints now being received from bank customers." Local bank managers are showing genuine concern about the image projected by their facilities.

*Subcommittee's independent survey*

Responses to the Subcommittee's inquiry revealed that the level of service in the MBF had improved somewhat from the time of the Subcommittee's original investigation, but that problems remained. Camp Butler, Okinawa reported long lines and delays in obtaining service, particularly on pay days. Shu Lin Kou, Taiwan reported delays in posting of deposits and delivery of monthly statements. Another facility in Okinawa reported that "Long lines are a major problem." Guam reported that service is below average. Zweibrucken, Germany cited a need for improved communications between banks and customers and Spandahlem, Germany reported a similar need for better customer communication. Fulda, Germany reported that the military banking facility at that location is not customer oriented. Schweinfurt, Germany reported dissatisfaction with the amount of time need for transactions and discourteous employees. Schwaebisch, Germany reported that long lines and delays are a problem. Nurenberg also contended that service is extremely slow and there is a lack of concern among employees and management. Kitzingen, Germany reported many complaints regarding the late receipt of bank statements. Bad Tolez, Germany reported that there is no provision at the banking facility for individuals to discuss banking problems privately with bank personnel. Babenhausen, Germany reported that the service is totally unacceptable with customers waiting up to 90 minutes in line for service. Augsburg, Germany reported that customers experience 3-week delays in the receipt of bank statements.

Aschaffenburg, Germany reported that service to the customers is still unsatisfactory. Baumholder, Germany reported that long lines still exist in the MBF at all times and that the MBF still has a very bad reputation with members of the community as a whole.

*Subcommittee's recommendation No. 3*

Eliminate the 25 cents per hundred check cashing fee for account holders and raise the present maximum amount that may be cashed to a more realistic rate.

*DOD report*

DOD did eliminate the 25 cents per 100 check cashing fee for account holders at military banking facilities. In addition, an account holder may cash a check up to the amount which he has on deposit. The \$300 maximum still applies to non-account holders. DOD also has stated that the present service charges and fees will be reviewed again during fiscal 1978.

*Subcommittee's independent survey*

Only a small number of the military banking responses dealt with the check cashing fees. Berlin, Germany recommended eliminating all fees. New Amsterdam, Netherlands commented that the \$300 maximum for non-account holders is too limiting and that account holders should be able to cash checks over the amount in their account.

*Subcommittee's recommendation No. 4*

Permit military finance officers to cash the checks of servicemen at all times.

*DOD report*

Check cashing by finance offices co-located with banking facilities has been authorized on payday and the day after at 35 overseas locations at which long lines at the banking facilities were causing unreasonable delays for bank customers.

*Subcommittee's independent survey*

Most MBFs did not report this item as a major concern in the Subcommittee survey; however, a few facilities did raise the issue. For example: Karlsruhe, Germany stated that "the elimination of check cashing by the disbursing officers appears to be an attempt to force the service member and DOD personnel to use the MBF." Yokosuka, Japan reports that the disbursing officer is not permitted to cash checks. Apparently these are facilities which had not yet received the necessary permission from Washington to cash checks at finance offices.

*Subcommittee's recommendation No. 5*

Institute an instant line of credit of \$100 for account holders at the military banking facilities.

*DOD report*

This recommendation has not been implemented because of the possibility that younger and less experienced account holders would be encouraged to extend themselves beyond their financial means. However, consideration is being given to the approval of a line of credit program for qualified customers to be put into operation in fiscal year 1978.

*Subcommittee independent survey*

Since the Subcommittee initially made the recommendation regarding instant line of credit in 1975, it was a little astounding to discover that DOD is "considering implementing it some time in fiscal year 1978". The Subcommittee inquiry of bases found that of

the MBFs that commented on this issue, 12 were in favor and 6 were opposed. This result may have had an effect at DOD where there has apparently been a change of heart from the original steadfast opposition to this recommendation.

*Subcommittee's recommendation No. 6*

Realizing the numerous competing demands for DOD funds, the Subcommittee nevertheless believes the Department should strive to provide more adequate space for the military banking facilities.

*DOD report*

Defense comments that they are endeavoring to remedy inadequacies in the space provided to military banking facilities. DOD, in fact, has issued new guidelines for banking facility space that increases the maximum space permitted.

*Subcommittee independent survey*

Responses to the Subcommittee inquiry indicated that little progress had been made thus far on this issue. Keflavik, Iceland reported "inadequate space." Heilbronn, Germany reported that an effort is needed to expand the space available. Moehring, Germany reported that "their MBF suffers greatly from a lack of adequate space. The current facility is woefully inadequate." Pirmasens, Germany reported an inadequately cramped facility. The facility located at Stuttgart, Germany reported a need for more space for confidential customer counseling and a general lack of adequate physical space. Both Chicksands and Lakenheath in England stated that a major problem is a lack of space in the present facility.

*Subcommittee's recommendation No. 7*

American dependents employed at the facilities should receive equal pay and benefits with foreign nationals doing the same work.

*DOD report*

DOD comments that this is not a problem "with the exception of American dependents in Germany, Japan and Okinawa." (DOD does not point out, however, that these three communities account for 75.4 percent of all banking facilities in the world). DOD states further that the situation in Germany "is now being explored" and that "consideration will be given to the adequacy of pay and benefits for American dependents in relation to the pay and benefits for local nationals at the same level of responsibility and seniority."

*Subcommittee independent survey*

This item was not a concern of most MBFs responding to the survey. The Military Banking Facility at Ansbach, Germany reported however that in their opinion, American dependents employed at MBFs should be paid equally with foreign Nationals doing the same work. The facility at Upper Heyford also expressed the belief that the pay rates of Americans should not be disclosed due to the fact that they are higher than those of nationals in England and might aggravate the disgruntled feelings on the part of the English.

### *Subcommittee's recommendation No. 8*

Local bank managers should be given greater authority and flexibility with regard to the everyday operations of the facility.

### *DOD response*

Despite the fact that Treasury had agreed with this recommendation during the 1976 hearings, DOD reported that they "have not given any new delegation of authority to local managers."

### *Subcommittee independent survey*

The Subcommittee survey disclosed that there has indeed been little activity to implement this recommendation. For example: Holy Loch, Scotland reported that more flexibility is needed to meet local conditions. They were denied permission to open 30 hours per week as needed. High Wycombe, England expressed a desire for longer banking hours. Babenhausen, Germany reported that a request for full-time banking services has been in for over a year. Giessen, Germany reported that a persistent source of dissatisfaction is the bank operating schedule and that Saturday openings would make it possible for soldiers to make one stop to do all their banking and shopping and would simultaneously reduce the amount of lost duty time during the week. Karlsruhe, Germany reported that the attempt to establish Saturday working hours has been thwarted. This facility also says that the lack of freedom to make local decisions continues to result in projecting an image of an inefficient and bureaucratic banking system. Nueremberg, Germany reported that expanded banking hours are clearly needed. Stuttgart, Germany reported that the MBF still operates at 25 hours per week despite the hearing record of the Subcommittee on General Oversight which indicated that facilities in Europe would be permitted to expand the hours of operation to 30 per week. Ulm, Germany expressed the opinion that bank managers should be permitted to set the operating house for their own facility. Fulda, Germany reports that their request to expand to a 30-hour week has been disapproved and the 25-hour continues to be inadequate. New Amsterdam, Netherlands and Ramstein, Germany both call for greater authority for local bank managers to meet local conditions.

## VII. OVERSEAS INVESTIGATION

As a result of Chairman Mahon's letter, the contradictions between DOD's report and those from the field, and in order to conduct thorough oversight investigation, it was determined to undertake a field trip to military banking facilities in November, 1977. The fact that DOD had just taken complete control of the program, including funding, also made this an ideal time for such an inquiry.

A list of the bases visited during the investigation follows. A number of factors went into the selection of bases visited. We desired a mix of size, branch of service, and type of personnel. In addition, the location of problems as indicated by the survey was considered, and was the accessibility of the bases in the short period of time available for the investigation.

## AMERICAN MILITARY BASES VISITED

Bentwaters and Woodbridge, England; Holy Loch, Scotland; Heidelberg, Kaiserslautern, Zweibrücken, Munich, Augsburg and Pirmasens, West Germany; Aviano and Vicenza, Italy; and Torrejon, Spain.

At each location, the banking facility was observed, its officers, employees, and customers questioned, and discussions were held with military banking and finance officers. In addition, meetings were conducted with the leading military and civilian personnel in Europe with responsibility in the military banking program.

Most importantly, at each base the investigation included interviews, at random, with service personnel and dependents both inside and outside the banking facility itself. Approximately 50 such interviews were conducted during the investigation.

## VII. ITALY AND SPAIN

In both Italy and Spain, American banks are not permitted to operate military banking facilities and American military installations utilize the service of Italian and Spanish banks.

In Italy, 5 Italian banks operate four full-time and 6 part-time banking facilities at U.S. Bases. In Spain, two Spanish banks provide full-time service at the two major U.S. bases.

We found that the level and type of services offered by these banks varies greatly from facility to facility. For example, the Banca Popolare di Pordenone at Aviano Air Force Base provides nearly a full range of services and operates with efficiency and effectiveness exceeding or equal to any American operated banks we examined in other European commands. Other banks, those at Vicenza and Torrejon, for example, provide only minimal services—not much beyond check cashing and low interest savings accounts. Overall, the level of service is below average but the facilities do provide essential services not readily available elsewhere, services which are vital to the morale and performance of American military personnel.

The Italian and Spanish banks receive no direct reimbursement and none has been provided for by the appropriation process. However, each of the four full-time military banking facilities in Italy maintains a Treasury General Account which amounts to over \$200,000 per bank.

In Spain, a Finance Officer's Account, totalling about \$1 million is kept at the Spanish bank at Torrejon.

The Treasury asserts that these accounts are not for the purpose of subsidizing the services provided to Americans. However, the banks themselves regard the accounts as essential payments for these services, and in practical terms it is clear that the funds do indeed constitute an indirect payment to the banks for servicing American military personnel and their dependents.

The Treasury Department, as part of its overall disengagement from military banking, has indicated that the accounts will be phased out and may be ended completely by fiscal 1979. We regard this as a potentially disruptive and harmful action. The banks, in all probability, will cut or end their services to Americans if Treasury withdraws its money and the authorization for the deposit in Spain. The Department of Defense has no mechanism at present to substitute for Treasury's involvement.

It is incumbent upon the two Departments to work out a system to assure continuation of banking services to Americans service personnel and dependents in Italy and Spain. For example, Defense might eventually reimburse Treasury for interest lost in the military banking accounts in these countries and direct appropriation might be used to cover DOD's cost. As an even longer range solution, perhaps American facilities, given a change in law and attitude by the Italian and Spanish governments, could be brought into these nations under contract.

In any event, Treasury's desire to end the accounts in a hasty manner will benefit no one and we strongly recommend that this policy not be implemented.

At present, the U.S. Treasury Attaché at the American Embassy in Rome, is responsible for overseeing the relationships and arrangements between the Italian banks and the American military. In addition, the Attaché serves as a contact point to assist U.S. military authorities with the Bank of Italy in connection with collateral deposits and with the Italian Exchange Office to assure compliance with Italy's exchange control regime.

Since the overall responsibility for military banking services is being transferred to DOD, the Treasury Department wishes to be relieved of the role it currently plays in Rome.

However, there is no appropriate DOD office in Rome to assume this responsibility and we feel it is essential to have some Rome contact point to deal with the Bank of Italy, the Exchange Office, and at least the Rome-based banks which provide military banking services.

Therefore, as with the deposits maintained in the Italian and Spanish banks providing banking services to the bases, we feel the Treasury should avoid precipitate action on this issue. The Treasury Department Attache in Rome should continue his lead role in military banking unless and until a more suitable system can be developed.

#### CONCLUSIONS AND RECOMMENDATIONS

We believe the military banking program is vital to the morale and welfare of American servicemen and dependents stationed abroad. Unfortunately, the program has not been well administered in the past and the banking facilities have suffered greatly from well-earned image problems reflecting an inadequate level and type of service.

We have found that, generally speaking, the overseas military banking program is in better shape at the present time than it was when the Subcommittee first investigated this area in 1975.

Crucial to the improvements which have occurred and to the program's high hopes for the future is the centralization of administration in the Department of Defense.

Both in our field investigation and in discussions with appropriate DOD officials in Washington, we have found a new spirit of dedication to improve the services provided by the military banking program. Now that the program is completely under the authority of the Department whose personnel it services, there is a determination, especially evident at the bases and banks, to make the program work and to improve its image.

The contracts signed by DOD and the banks reflect both this new commitment and an awareness of the concerns voiced by this Subcommittee in the past. In the "Objectives" section of the contract, the following goals for fiscal 1978 are specified:

(1) Reducing the period of time in posting to client accounts for both checking and savings accounts.

(2) Reducing the period of time in rendering account holders statements for both checking (monthly) and savings (quarterly).

(3) Reducing the delays of waiting in lines at the MBFs.

(4) Increasing customer service hours at MBF, whenever this can be done without increasing operation costs under the contract, to meet short-term or continuing customer needs.

(5) Providing a more meaningful report that can be better utilized by management in making decisions about the MBF program.

(6) Providing additional services to authorized personnel such as accepting and paying utility bills and implementing an overdraft program for qualified customers.

(7) Reducing teller shortages.

At virtually all the banks we inspected both the banking and military authorities were aware of and working toward the realization of these goals.

The contract itself represents a substantial improvement in that virtually all the rules, regulations, fees, etc., now are covered in one document. Under the previous system, Treasury letters and DOD directives, issued irregularly, set the policies and procedures for the operation of the MBFs. The letters, often contradictory, were a confusing and self-defeating method of administering the program. Nearly all bank managers and military bank liaison officers interviewed by the Subcommittee had read, and were familiar with, the new contract governing their operation. They were unanimous in the feeling that the contract allowed them sufficient flexibility in day to day operations while providing a much needed guide to the proper functioning of an MBF.

One of our primary recommendations in 1975 was for improved communications between Washington and the overseas facilities. Although minor problems remain, it is clear that both the military and the banking personnel in the field are in much closer contact with the DOD banking office in Washington.

It is clear also that progress is being made with regard to services provided by the MBFs. As recommended by the Subcommittee, a guaranteed overdraft program is now being implemented for servicemen who elect to send their paycheck directly to the banking facilities. This should help eliminate the needless paperwork and disciplinary action which often accompanied a small overdraft in the past.

The Subcommittee observed that the problems of long lines and discourteous service have diminished since its last investigation. These items were major concerns of the average serviceman in 1975. Problems are still encountered, and at some facilities the situation remains serious, but overall there has been notable improvement.

Approximately 20 facilities have been improved or expanded in the last two years and many more are scheduled for renovation. This

improvement in physical facilities has, in many cases, led to improved service for the customer and improved working conditions for the employees.

A related problem of different pay levels for American dependents and German nationals employed in the MBFs has apparently been solved to the satisfaction of all concerned.

#### RECOMMENDATIONS

1. We believe the Congress, for the immediate future, should continue to fully fund the operations of the overseas military banking facilities. Although some improvements have been made, much of the equipment now in use at the facilities is out of date and badly in need of modernization. With the continued full support of the Congress, for at least the next two fiscal years, we believe the MBFs will eventually be able to assume a greater proportion of the financial burden themselves.

2. We strongly urge both the Department of Defense and the companies operating military banking facilities to work, through expanded service and an improved image, toward self-sufficiency. DOD, which is now budgeting for the facilities, should realize that the Congress will not, and should not, forever subsidize the MBFs as a losing operation. The banks must recognize that the appropriation process will not continue to cover losses indefinitely. Only through expanded services, such as a higher loan limit and the ability of a borrower to repay from wherever he may be stationed, will the system ever begin to prosper.

The image of the MBFs, and hence their profitability, could also be improved greatly by the removal of unnecessary irritants such as the penalty imposed after two savings withdrawals per month and the various check cashing fees. These items may seem to cover costs and increase revenue, but they actually harm the banking facilities a great deal in terms of public trust and esteem.

DOD's undivided authority over the MBFs is a relatively new development and this report can only be fairly read with that fact in mind. It is our intention to continue to monitor the program, through both our own resources and those of the General Accounting Office, in the future in order to insure that both the taxpayer and the serviceman are receiving the greatest possible value from the program.



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